

Message Text

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AMEMBASSY BUDAPEST

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E.O. 11652: GDS, 12/31/79

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SUBJ: ECONOMIC COMMITTEE: EXAMINATION OF HUNGARIAN ECONOMY

REF: USNATO 4418

SUMMARY: ECONOMIC COMMITTEE EXAMINATION OF HUNGARIAN ECONOMY CENTERED MAINLY ON SLIGHTLY ACCELERATED ECONOMIC GROWTH, CONTINUED EXPERIMENTATION WITH NEW ECONOMIC MECHANISM, NEW TRENDS IN FOREIGN TRADE (PARTICULARLY INCREASED INTEREST IN LDC ENERGY AND RAW MATERIALS), AND CONTINUED ACTIVE INDUSTRIAL COOPERATION WITH WESTERN COUNTRIES, NOTABLY WITH U.S. FIRMS, IN THE CLOSED PRODUCTION SYSTEM WHICH IS USED INCREASINGLY IN AGRICULTURE. BUDAPEST APPARENTLY AUGMENTING FUNDS FOR IMPORTS UNDER LATTER SYSTEM. END SUMMARY.

1. ECONOMIC COMMITTEE ON OCTOBER 11 CONDUCTED EXAMINATION OF THE HUNGARIAN ECONOMY. ECONOMIC ADVISORS WERE REINFORCED BY EXPERTS FROM UK AND FRANCE. UK NOTE ON HUNGARIAN ECONOMY (DOCUMENT AC/127-D/445) SERVED AS BASIS FOR DISCUSSION. ECONOMIC DIRECTORATE WILL NOW REVISE DOCUMENT IN LIGHT OF ECONADS' COMMENT FOR EVENTUAL TRANSMITTAL TO COUNCIL. RESULTS OF CONFIDENTIAL

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THE EXAMINATION ARE SUMMARIZED AS FOLLOWS.

2. HUNGARIAN ECONOMIC GROWTH HAS ACCELERATED SLIGHTLY IN RECENT YEARS. AGRICULTURAL OUTPUT HAS INCREASED SIGNIFICANTLY.

A MAJOR FACTOR WAS THE LESSENING OF CENTRAL CONTROL OVER THE FARMS AS PART OF THE ECONOMIC REFORM OF 1968, I.E. THE NEW ECONOMIC MECHANISM (NEM). HOWEVER, THE OVERALL ECONOMIC GROWTH RATE WAS HAMPERED BY A SLACKENING OF THE RATE OF INDUSTRIAL GROWTH SINCE 1968. THE NEM HAS ENCOUNTERED A NUMBER PROBLEMS, SUCH AS OVER-INVESTMENT, A CONSIDERABLE TRADE DEFICIT, DIFFICULTY IN CONTROLLING PRICE INCREASES IN CERTAIN INDUSTRIES, AND INCREASING INCOME DIFFERENTIALS. MUCH OF THE ORIGINAL NEM MECHANISM REMAINS INTACT, ALTHOUGH IN 1972 THE GOVERNMENT STRENGTHENED A CONSIDERABLE NUMBER OF CENTRAL CONTROLS AND REDUCED IMPORTS. THE NEM REMAINS THE PRINCIPAL EXPERIMENT IN ECONOMIC LIBERALIZATION UNDER WAY IN EASTERN EUROPE.

3. HUNGARIAN ECONOMY FACES A NUMBER OF PROBLEMS IN MEDIUM TERM, INCLUDING RELATIVE MANPOWER SCARCITY, NEED TO STRENGTHEN LABOR PRODUCTIVITY, CONSIDERABLE RELIANCE ON IMPORTS PARTICULARLY OF WESTERN TECHNOLOGY, AND RELATIVE SHORTAGE OF FOREIGN EXCHANGE TO FINANCE SUCH IMPORTS. HUNGARY REMAINS HEAVILY DEPENDENT ON SOVIET ENERGY AND RAW MATERIALS AND ON COMECON COOPERATION. HOWEVER, BUDAPEST RECOGNIZES HER ALLIES' RESOURCES ARE LIMITED, AND CONSEQUENTLY IS INCREASINGLY INTERESTED IN MATERIAL RESOURCES OF LDCS INCLUDING MIDDLE EAST OIL. HUNGARY, ONE OF MOST ACTIVE EAST EUROPEAN COUNTRIES IN INDUSTRIAL COOPERATION WITH WESTERN COUNTRIES, NOW APPARENTLY TAKING STOCK OF HER EXPERIENCE IN THIS REGARD.

4. SUPPLEMENTARY UK NOTE (TRANSMITTED SEPARATE AIRGRAM) CONTAINING AMENDMENTS TO AC/127-D/445 INCLUDES EXTENSIVE DESCRIPTION OF ONE KIND OF COOPERATION WITH WEST (PARTICULARLY THE U.S.), I.E. THE CLOSED PRODUCTION SYSTEM (CPS) USED IN CERTAIN AGRICULTURAL ENTERPRISES. UNDER THIS SYSTEM, U.S. FIRMS AS PART OF JOINT UNDERTAKING, HAVE SHIPPED NECESSARY MACHINERY AND PROVIDED NECESSARY SEEDS AND KNOW-HOW FOR COMPLETE MECHANIZATION OF ALL AGRICULTURAL PROCESSES FROM SOIL PREPARATION TO CONVERSION OF MAIZE INTO ANIMAL PRODUCTS. CPS SYSTEM FOR MAIZE PRODUCTION AT END OF 1972 EXTENDED TO 126,000 HECTARES OF FARM LAND, WITH PLANNED INCREASE TO 136,000 HECTARES IN 1973. U.S. FIRMS ALSO HELPING IN EXTENSION

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OF CPS SYSTEM TO SOY BEANS AND SUGAR BEET. TOTAL COST OF MACHINERY AND EQUIPMENT FOR MECHANIZATION MAIZE AND SUGAR PRODUCTION ESTIMATED AT \$9 MILLION, MOSTLY BOUGHT IN U.S. UK NOTE SEES EVIDENCE THAT BUDAPEST PREPARING TO INCREASE FUNDS AVAILABLE FOR PURCHASE OF MACHINERY AND KNOW-HOW TO EXTEND CPS SYSTEM: E.G. CONSIDERABLE PUBLICITY GIVEN BY GOVERNMENT TO FACT THAT 1973 HARVEST "GREATLY FACILITATED BY SUPERB OPERATIONS OF 300 HIGH CAPACITY WEST GERMAN CLAAS COMBINES THAT HAD BEEN IMPORTED UNDER A COOPERATION AGREEMENT BETWEEN THE UNITED STATES AND HUNGARY." RUMSFELD

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